

SSA Market Review

Nigeria: The Monetary Policy Stance Gets Aggressive with a 150bps hike in the Policy Amidst Heightened Inflation Risks

The Central Bank of Nigeria raised its policy rate by 150bps last week to 15.50% as the Monetary Policy Committee sustains its effort to reign in inflation.

Nigeria's headline inflation has increased for the seventh consecutive month to 20.52% in Aug-22, the highest level in 17 years (+4.92% YTD) and is threatening to spiral. The inflation risks became particularly elevated over the last four months, with headline inflation rising by 2.8% since May 22, thereby strengthening the Committee's resolve to shift focus to taming inflation. Thus far in 2022, the MPC has delivered a 400bps hike in the policy rate, and the Sept-22 hike is the third consecutive hike in interest rate. The 150bps increase also beats market expectation, signaling the Central Bank's aggressive stance in keeping with its mandate of ensuring price and monetary stability.

The aggressive interest rate hike should slow down the growth in monetary aggregates and potentially slow down portfolio reversals, which supports the Naira. However, we believe the passthrough of Naira depreciation due to the limited supply of FX on the non-official market segments is a key driver of the inflationary run. Thus, the high FX demand pressure on the parallel market could sustain the run of inflation despite the aggressive policy stance.

Ghana: Prevailing Uncertainties Continue to Fuel Bearish Sentiments Despite the Treasury's Reassurances at Midweek

Last week, Ghana's Finance Minister held a presser to address lingering market concerns and allay investors' fears about the widespread rumour of a potential domestic debt restructuring as a pre-condition for an IMF program. The presser follows two weeks of speculation on a possible debt restructuring that sustained the surge in nominal yields, further undermined demand for GoG debts, and left the market in a significantly net-offered position.

The Minister outlined seven (7) thematic areas, including debt sustainability, fiscal consolidation, monetary and exchange rate policies, financial sector resilience and macro-critical structural reforms, as the focus of the negotiations. The Minister indicated that the conversation around domestic debt restructuring is pre-mature and that the ongoing Debt Sustainability Analysis (DSA) being carried out jointly by the IMF and the World Bank staff will inform any debt operation.

Our analysis of the government's liquidity position shows an elevated liquidity constraint, with interest payments alone consuming 54.2% of total revenue and 68% of tax revenue as of 1H22, with the domestic debt stock accounting for more than 70% of the interest burden. The Minister stopped short of denying the reports and instead announced that a 5-member committee of prominent financial service professionals would engage key players in the financial sector for inputs into the program design. Given the potential systemic risk of debt restructuring in the form suggested, we are encouraged by this proposed prior engagement, as this collaborative effort will help preserve the resilience of the domestic financial sector in debt restructuring. However, the reassurances did little to change market sentiments as the week closed in a significantly net-offered position with continuously high nominal yields.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	6.49%	5.50%	0.99%
South Africa	6.20%	5.65%	0.55%
Uganda	9.31%	9.31%	0.00%
Egypt	15.87%	15.60%	0.28%
Kenya	8.95%	8.95%	0.00%
Tanzania	3.00%	3.00%	0.00%
Zambia	9.94%	10.00%	-0.06%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	22.20%	22.10%	0.10%
Inflation (12-month average)	20.17%	20.17%	0.00%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	26.50%	26.50%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	717.22	948.02	-24.35%
182 - Day Bill issued (GH¢)	145.6	244.28	-40.40%
364 -Day Bill issued (GH¢)	137.04	0	n/a
91 - Day Bill Yield (%)	30.45%	30.18%	0.27%
182 – Day Bill Yield (%)	31.57%	31.34%	0.23%
364 – Day Bill Yield (%)	31.55%	30.47%	1.07%
Bid/Cover ratio	1.0x	1.000	0.00
Target coverage	1.1x	0.90	0.21
Maturity Coverage	1.27x	0.96	0.31
Target for Upcoming Auction	1,176	905	29.94%
Upcoming Maturing T-bills	1,092.53	786.68	38.88%

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The Ghana Fixed Income Market in Focus

- Demand for T-bills recovered last week as the total bids tendered and the uptake worth GH¢999.86 mn exceeded the auction target by 10% and the maturities due for the week by 27%.
- The 91-day (30.45% | +27bps w/w), the 182-day (31.57% | +23bps w/w) and the 364-day (31.55% | +107bps w/w) bill yields continued higher amidst lingering market uncertainties.
- We anticipate a boost in liquidity in the week ahead from the maturing 2-Year paper, which could flow into the upcoming T-bill offer.

Auction performance: Investor demand for money market bills recovered at the last auction following a dip in the preceding week. The Treasury received and accepted total bids worth GH¢999.86 mn last week's auction, which exceeded the auction target by 10% and the T-bill maturities due today by 27%. Interest rates continued the northward trek, with the benchmark 91-day closing 27bps higher at 30.18%, with the 182-day bill also clearing at 31.34% (+20bps w/w).

The Treasury's Refinancing Obligation for Q4 2022: Ahead of the issuance of the Q4 2022 auction calendar, our audit of the outstanding bonds shows a refinancing obligation worth GH¢8.57bn across the 2-Year and 5-Year tenors. When adjusted for the Oct-22 2-Year note maturing today, October 3, 2022 (FV: GH¢2.48bn), the refinancing obligation reduces to GH¢6.09 billion split across three tenors with an average outstanding face value of GH¢2.03bn. Resident investors hold a larger share of the Q4 2022 maturities, accounting for 87.3% of the maturities due in the quarter.

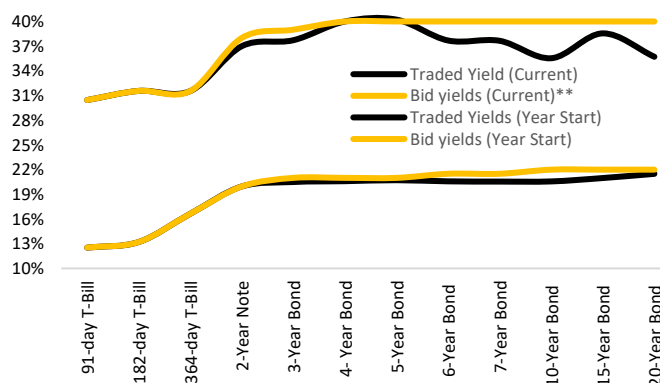
Besides the October 22 paper maturing today, the next maturities are due on November 7 (2-year | FV: GH¢2.3bn) and November 28 (5-Year | FV: GH¢2.83bn). We believe the one-month time frame affords the Treasury a window to address the lingering investor concerns and correct market sentiments ahead of the November issuances, potentially increasing the chances of success.

The Money Market in the Week Ahead: The next T-bills auction slated for Friday, October 7, 2022, shall target a gross issuance of GH¢1.18bn across the 91-day and 182-day bills. With no competing offers in the week ahead, the auction could attract significant demand from domestic investors at relatively stable yields due to liquidity flows from Oct-22 2-Year paper maturing today.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investor activity in the secondary bonds market recovered last week following a significant dip in the preceding week. Aggregate turnover for the week quickened to GH¢ 3.13bn (+115.7% w/w), with the 2023 to 2028 tenors accounting for 87.8% of the aggregate volumes traded. Despite the improved trading volumes, the market was not offered with scant bidding interest. Amidst the prevailing uncertainty, we expect investor appetite to be rooted in the short term, with bidding interest strongest around tenors with residual maturity of under five (5) years.

Market outlook: The lingering uncertainty about a potential debt treatment to sustain investor risk aversion in the week ahead, pending the IMF mission's conclusion on October 7. Thus, we expect tenors with short residual maturities and high-yielding T-bill offers will dominate investor appetite.



Source: GCB Capital Research | Bank of Ghana | Central Securities Depository

3Q-22 Issuance Calendar		
	3Q-22	q/q change
Gross Issuance	GH¢23.07 bn	-6.6%
o/w Rollover of maturing debts	GH¢21.12 bn	+5.1%
o/w new financing	GH¢1.95 bn	-57.5%
Target instruments		
1. T-bills - Weekly		
2. 2-Year -7-Year bonds – subject to market conditions		

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Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	46.0	35.96%	31.03%	33.5%	1.63%
16-Feb-26 (8.13%)	57.3	38.74%	35.62%	37.2%	4.65%
11-Feb-27 (6.38%)	44.3	37.28%	35.40%	36.3%	0.86%
26-Mar-27 (7.88%)	45.4	36.75%	34.98%	35.9%	1.95%
07-Apr-29 (7.75%)	41.4	30.48%	29.09%	29.8%	1.41%
16-May-29 (7.63%)	41.0	30.14%	28.77%	29.5%	0.57%
14-Oct-30 (10.75%)	75.5	16.84%	16.24%	16.5%	0.30%
26-Mar-32 (8.13%)	39.6	26.15%	25.00%	25.6%	0.32%
07-Apr-34 (8.63%)	39.1	25.54%	24.42%	25.0%	-0.05%
11-Feb-35 (7.88%)	39.3	23.30%	22.28%	22.8%	-0.38%
07-May-42 (8.88%)	38.9	23.42%	22.34%	22.9%	-0.34%
16-Jun-49 (8.63%)	38.9	22.31%	21.25%	21.8%	-0.41%
26-Mar-51 (8.95%)	38.9	23.11%	22.00%	22.6%	-0.43%
11-Mar-61 (8.75%)	38.9	22.51%	21.41%	22.0%	-0.43%

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